

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-07 NEA-10 ISO-00 SSO-00

NSCE-00 USIE-00 INRE-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 SAM-01 OES-03

SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01 IO-10 /126 W

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O R 021550Z JAN 76

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC IMMEDIATE 2645

AMEMBASSY ABU DHABI

AMEMBASSY ACCRA

AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY MONROVIA

AMEMBASSY QUITO

AMEMBASSY AMEMBASSY TEHRAN

AMEMBASSY THE HAGUE

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 LAGOS 0044

E.O. 11652: GDS

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TAGS: ENRG, NI

SUBJECT: NIGERIA RAISES CRUDE PRICE SHARPLY,
SLASHES PRODUCING COMPANY MARGINS

REF: A. LAGOS 12088 B. ACCRA 8567 C. MEMCON OCTOBER 23, 1975
BETWEEN AMBASSADOR EASUM AND LIBERIAN AMBASSADOR TO NIGERIA

1. NIGERIANS RETURNED HOME FROM OPEC CONFERENCE IN HIGHLY AGGRESSIVE FRAME OF MIND. ON DEC. 30 MINISTRY OF PETROLEUM AND ENERGY (MPE) CALLED IN PRODUCING COMPANY EXECUTIVES AND TOLD THEM THAT PRICE OF GOVERNMENT OIL IN FIRST QUARTER 1976 WOULD BE DOLLARS 12.75, TAKE IT OR LEAVE IT. COMPANIES WERE WARNED THAT ANY OIL LIFTED IN JANUARY WOULD BE COMPUTED AT THAT PRICE WHETHER OR NOT COMPANIES HAD FORMALLY AGREED TO IT. ON DEC. 31, MPE BLUNTLY INFORMED PRODUCING COMPANIES THAT POSTED PRICE FOR FIRST QUARTER WOULD BE RAISED TO DOLLARS 13.709, UP FROM DOLLARS 13.071 FIGURE SET IN OCTOBER AFTER OPEC PRICE INCREASE. THIS ACTION SETS NIGERIA'S POSTED PRICE 17.5 PERCENT ABOVE ITS THIRD QUARTER 1975 PRE-OPEC INCREASE LEVEL. THE DIRECT SALE PRICE, WHICH NOW EQUALS EXACTLY 93 PERCENT OF THE POSTED PRICE IN LINE WITH MANY OTHER OPEC COUNTRIES, IS UP 11.8 PERCENT, FOR THE SAME PERIOD.

2. IN ADDITION TO PRICE HIKES, PRODUCING COMPANIES HAVE BEEN INFORMED THAT FMG WILL BE SETTING UP MANAGEMENT COMMITTEES TO OVERSEE COMPANY OPERATIONS. COMMITTEES WILL CONSIST OF THREE MEMBERS FROM GOVERNMENT, THREE FROM COMPANY, AND BE PRESIDED OVER BY ONE FMG MILITARY OFFICER. COMPANIES DO NOT YET KNOW WHETHER FMG WILL (OR HAS MEN ENOUGH TO BE ABLE TO) SET UP DIFFERENT COMMITTEE FOR EACH COMPANY, OR WHETHER SINGLE GROUP OF GOVERNMENT MEMBERS WILL COVER SEVERAL COMPANIES.

3. UP TO THIS POINT, ALL BUYERS HAVE REFUSED TO CONSIDER DOLLAR 12.75 PRICE. AS NOTED IN REFTEL (A), NON-PRODUCING COMPANIES BALKED IN EARLY DECEMBER. IN NOVEMBER, MAJOR PRODUCING COMPANIES HAD ALREADY MADE WHAT THEY CONSIDERED TO BE FIRM AGREEMENTS WITH MPE FOR DIRECT PURCHASE OF GOVERNMENT CRUDE AT DOLLAR 12.61 IN FIRST QUARTER 1975. HOWEVER, IN SECOND WEEK OF DECEMBER, MPE ABRUPTLY INFORMED THEM THESE AGREEMENTS WOULD HAVE TO BE RECONSIDERED AND NEW PRICE OF DOLLARS 12.75 PAID. PRODUCERS ALSO BALKED.

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4. HOWEVER, IT NOW APPEARS THAT RESISTANCE TO NEW HIGH PRICE WILL COLLAPSE. MOBIL, ALTHOUGH TRADITIONALLY CRUDE SHORT, HAS BEEN ADVISED BY ITS LOCAL MANAGER TO REFUSE TO PAY AND TO LOCATE SUBSTITUTE CRUDE. BUT GULF IS IN A FAR MORE TICKLISH BIND. IT NEEDS THE 150,000 B/D OF GOVERNMENT CRUDE IT AGREED TO PURCHASE (SEE REFTEL A) TO MAKE UP FOR THE 140,000 B/D IT LOST WHEN OPERATIONS WERE SUSPENDED IN CABINDA. (GULF'S LOCAL MANAGER NOTED WRYLY THAT IT WAS

PRESSURE FROM THE STATE DEPARTMENT WHICH FORCED THE CABINDA SHUT-DOWN AND BROUGHT ABOUT THIS STATE OF AFFAIRS.) GULF ALREADY HAS SHIPS ON THE WAY TO LIFT NIGERIAN CRUDE, AND NO POSSIBILITY OF FINDING

ALTERNATE SOURCE OF SIMILAR CRUDE TO WHICH THEY WOULD BE DIVERTED ON SUCH SHORT NOTICE. THE GULF MANAGER ALSO BELIEVES THAT SHELL U.S. HAS AGREED TO PAY WHATEVER THE PRICE WILL BE BECAUSE GULF IS PRESENTLY LOADING A 1.7 MILLION BARREL TANKER FOR SHELL AT ESCRAVOS. SHELL'S TRADER HAD TOLD ANOTHER TRADER EARLIER THAT HIS COMPANY WOULD NOT ACCEPT 12.75 UNLESS OTHERS DID. HOWEVER, AS NOTED IN REFTEL (A), IF SHELL TOPPLES, THE OTHER SMALLER DOMINOES WILL QUICKLY FALL INTO LINE.

5. TO SUPPORT THEIR ULTIMATUM, MPE OFFICIALS TOLD THE COMPANIES THAT THE OPEC ECONOMIC COMMITTEE HAD RECOMMENDED PRICE DIFFERENTIAL CHANGES BEFORE THE TERRORIST RAID OCCURRED, AND INSIST THAT THEY HAD ALREADY MADE SEVERAL SALES AT THE NEW PRICE. THE MPE REFUSED TO NAME THESE CUSTOMERS, BUT SOMEWHAT COYLY IDENTIFIED THEM AS NON-PRODUCING COMPANIES THAT WERE QUOTE SPECIAL BUYERS UNQUOTE. IN VIEW OF THE RUMORS OF A PAYOFF IN OIL FOR ITS SWITCH ON THE MPLA, REPORTED IN REFTEL (B), WE WONDER IF ONE OF THESE BUYERS MIGHT HAVE BEEN THE GHANA SUPPLY COMPANY. AS NOTED IN REFTEL (A), THE GSC HAD CONTRACTED TO BUY 20,000 B/D FROM THE NIGERIAN NATIONAL OIL COMPANY IN OCTOBER-NOVEMBER. IN RETURN FOR THE GSC DOING IT THE FAVOR OF AGREEING TO ITS NEW PRICE, NIGERIA COULD SURELY HAVE FOUND SOME WAY OF EITHER TAKING LESS IN ACTUAL PAYMENT OR PROVIDING GHANA WITH OTHER COMPENSATION. THERE IS ALSO A CHANCE THAT THE OTHER BUYER REFERRED TO BY THE MPE MIGHT BE LIBERIA. THE QUESTION OF LIBERIAN PURCHASES OF NIGERIAN CRUDE AT CONCESSIONARY RATES HAS BEEN DISCUSSED BEFORE, AND WAS REPORTED IN REF (C). LIBERIAN AMBASSADOR DIGGS BELIEVED AN ARRANGEMENT WAS POSSIBLE IN WHICH LIBERIA WOULD SELL BACK TO NIGERIA A PORTION OF THE REFINED
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PRODUCTS. NIGERIAN DOMESTIC REFINERY OUTPUT IS FAR BELOW CONSUMPTION, AND IN VIEW OF RECENT CONTROVERSIES OVER GASOLINE SHORTAGES, IT MIGHT NOT BE IMPOSSIBLE THAT A MUTUALLY FAVORABLE DEAL HAS BEEN WORKED OUT BETWEEN THE TWO. WE WOULD BE INTERESTED IN ANYTHING AMEMBASSIES ACCRA OR MONROVIA MIGHT BE ABLE TO ADD ON THIS.

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SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01 IO-10 /126 W

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC IMMEDIATE 2646

INFO AMEMBASSY ABU DHABI

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6. DETAILS OF HOW NEW PRICE WORKS OUT FOR NIGERIAN 34 DEGREE API

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MARKER CRUDE ARE AS FOLLOWS:

FIRST FOURTH THIRD
QUARTER 1976 Q 1975 Q 1975

A) POSTED PRICE	13.709	13.071	11.663
B) BUYBACK/DIRECT SALE PRICE	12.750	12.510	11.350
C) ROYALTY (20 0/0 OF A)	2.742	2.614	2.333
D) TECHNICAL COST OF PRODUCTION	.800	.900	.800
E) TAXABLE (A MINUS C AND D)	10.167	9.657	8.530
F) TAX (85 PERCENT OF E)	8.642	8.208	7.251
G) TAX PAID COST (C PLUS D PLUS F)	12.184	11.622	10.384
H) GOVERNMENT TAKE OF EQUITY OIL (C PLUS F)	11.384	10.822	9.584
I) GOVERNMENT TAKE ON DIRECT SALE (B MINUS D)	11.950	11.710	10.550
J) AVERAGE GOVERNMENT TAKE (55 PERCENT OF I PLUS 45 PERCENT OF H)	11.695	11.310	10.115
K) PRODUCER COMPANY MARGIN ON EQUITY OIL (B MINUS THE SUM OF C, D AND F)	.566	.888	.966
L) PRODUCER COMPANY MARGIN AVERAGE ON ALL BARRELS (45 PERCENT OF K)	.255	.400	.435
M) AVERAGE COST OF A BARREL FO CRUDE (55 PERCENT OF B PLUS 45 PERCENT OF G)	12.495	12.110	10.915

7. WHAT IS DRAMATICALLY EVIDENT FROM THESE FIGURES IS THAT THE MARGINS WHICH THE PRODUCING COMPANIES EARN ON A BARREL OF OIL HAVE BEEN DRASTICALLY CUT BY THE CHANGE IN POSTED AND FIRECT SALE PRICES. THE PRODUCING COMPANIES HAVE ARGUED FOR SOME TIME THAT EVEN 40 CENTS WAS NOT ENOUGH TO SUPPORT THE COST OF THEIR CAPITAL INVESTMENT PROGRAMS IN NIGERIA, AND SEVERAL HAVE ALREADY CUT BACK THEIR INVESTMENT PLANS FOR NEW EXPLORATION OR EXPENSIVE SECONDAR RECOVERY PROGRAMS BY AS MUCH AS 75 PERCENT. THE LARGEST PORTION OF PRODUCTION COSTS ARE FIXED BECAUSE THE CAPITAL INVESTMENT HAS ALREADY BEEN MADE. THUS UNIT COSTS PER BARREL GO UP SHARPLY WHEN PRODUCTION IS CUT. THE COMPANIES WILL THEREFORE TRY TO KEEP PRODUCTION GOING EVEN AT DEPRESSED MARGINS IF ONLY TO KEEP A BAD COST SITUATION FROM GETTING WORSE. HOWEVER, IF THE NIGERIAN GOVERNMENT REALLY INTENDS TO CHOP MARGINS IN THIS FASHION, IT WILL PRACTICALLY GUARANTEE THAT THE PRESENT PRODUCERS WILL NOT PUT A CONFIDENTIAL

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PENNY ON NEW INVESTMENT IN NIGERIA. SINCE 25 CENTS A BARREL IS ABOUT WHAT THE NATIONALIZED PRODUCING COMPANIES IN OTHER COUNTRIES ARE EARNING JUST AS OPERATING FEES, WHTOUT INVESTMENT RISKS, THESE NEW MARGINS INEVITABLY RAISE THE QUESTION WHETHER NIGERIA IS HEADING TOWARD FULL NATIONALIZATION. THE FMG HAS EARLIER SAID PUBLICLY IT IS NOT, BUT COMPANY REPRESENTATIVES TELL US THAT THE NEW MARGIN SIMPLY MAKES THEIR PRESENT SITUATION UNTENABLE.

8. THE NEW POSTED PRICE ALSO RESULTS IN A SHARPLY HIGHER GOVERN-

MENT TAKE, DOLLARS 1.69 GREATER THAN PRIOR TO THE OPEC PRICE INCREASE IN OCTOBER, AND 38.5 CENTS HIGHER THAN LAST MONTH. THIS DOUBTLESS REFLECTS THE NEW NIGERIAN GOVERNMENT'S STRONG DESIRE TO MAKE UP FOR REVENUES LOST IN MID-1975 WHEN PRODUCTION FELL BY NEARLY 40 PERCENT AND PUT ANNUAL REVENUE PROJECTIONS FOR 1975 SOME 3.3 BILLION DOLLARS BELOW DEVELOPMENT PLAN PREDICTIONS.

9. FINALLY, OF INTEREST TO THE AMERICAN CONSUMER, UNDER THE NEW PRICE AN AVERAGE BARREL OF NIGERIAN OIL WILL NOW COST 38.5 CENTS MORE THAN IT DID LAST MONTH, AND DOLLARS 1.58 MORE THAN IT DID IN SEPTEMBER BEFORE THE OPEC PRICE INCREASE.

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Message Attributes

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